

Flood Insurance and the NFIP Program

Floods are one of the nation's costliest perils and caused \$9.3 billion in economic losses in 2023 alone, according to the National Oceanic and Atmospheric Administration (NOAA). The Federal Emergency Management Agency (FEMA) says 90% of U.S. natural disasters involve flooding, but natural disasters are not the only reason properties flood.

Rainstorms and snowmelt that overwhelm drainage systems or cause the overflow of bodies of water result in flood damage. The failure of dams or levees also can cause flooding. FEMA estimates that 27,000 of the country's 90,000 dams are at risk of damage or failure, and they also are targets for acts of terrorism.

Commercial property insurance policies typically don't cover flood losses, meaning the damage to a building's foundation, structure, and building contents would not be insured. Disaster loans are available from the Small Business Administration, but only when damage is caused by a presidentially declared disaster.

WHAT FLOOD INSURANCE COVERS

Flood insurance covers physical damage to the building and its contents that results from a flood event. A partial list of covered property includes:

- Appliances and built-in cabinetry
- Detached garages
- Electrical and plumbing systems
- Foundation walls, anchorage systems, and staircases.
- Fuel tanks, well water tanks and pumps, and solar energy equipment

Most National Flood Insurance Program (NFIP) building policies have an Increased Cost of Compliance claim benefit that permits up to \$30,000 of physical damage limits to pay for demolition, elevation, or relocation of the building if necessary.

To be defined as a flood event, water must affect land that is normally dry and must originate from an overflowing river, lake, or other body of water; blocked or overwhelmed storm drains; storm surge; or broken dams or levees. Additionally, damage from the event must affect at least two acres or at least two properties.

Flood insurance does not cover septic tanks, decks, swimming pools, or business property that is outside a building, such as signage, fencing, sea or landscape walls, or parking lots. It also doesn't provide for lost income due to business interruption, temporary relocation or associated expenses, property kept in a basement, or currency or other valuable papers.

Damage to automobiles falls under the vehicles' comprehensive auto insurance. Sewer and drain backup is not covered under flood insurance but can be added to a standard commercial property policy.

HOW CAN YOU GET FLOOD INSURANCE?

Flood insurance is available to businesses, home and condo owners, condo associations, and renters/lessees/tenants. Condo associations should be aware that there are restrictions on contents coverage.

You can get federal government flood insurance from the NFIP or get coverage from a non-governmental insurer. In some cases, you can combine the two. In all cases, you need to go through an insurance agent.

Premiums are based on your location, your elevation, the physical characteristics of your building, your known risk of flooding, and how much coverage you purchase.

- Commercial properties: You can buy up to \$500,000 in building coverage and up to \$500,000 for contents.
- Condo associations: You can buy building coverage of up to \$250,000 multiplied by the number of units or the replacement cost of the building, whichever is less, and up to \$100,000 for the commonly owned contents of the building.

Building and contents coverages are purchased separately, and you don't have to buy both; although, if you have a mortgage on your building, your lender may require you to purchase building insurance.

There is usually a 30-day waiting period for NFIP policies from the time of purchase to the date when a policy goes into effect, except in cases of a new property purchase or refinance, an update to your current flood policy, an increase in the government's risk rating of your property, or a need for flood insurance due to wildfire on federal land.

An insurance agent's help is important because flood insurers, including the federal government, require accurate valuations of replacement costs. If you are not insured within 80% of a building's replacement cost, you could be financially penalized.

CONTACT YOUR AGENT FOR HELP

At IOA, our experts are able to walk you through the details of coverage and pricing, help you identify and mitigate your business's flood risk, and find the best coverage terms at the right price. We can help you with both NFIP coverage and private-sector insurance.

